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PTQ1202

RELEASED IN PART  
B1, 1.4(D)

PAGE 01 CARACA 03884 01 OF 02 052304Z  
ACTION WHA-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	DODE-00	DOEE-00	DOTE-00	PERC-00	SRPP-00	DS-00	EAP-00
	EB-00	EXIM-01	E-00	FAAE-00	VC-00	FRB-00	H-01
	TEDE-00	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01
	NSAE-00	OMB-01	OPIC-01	PA-00	PM-00	PRS-00	ACE-00
	P-00	SP-00	IRM-00	SSO-00	STR-00	USIE-00	EPAE-00
	PMB-00	DSCC-00	PRM-00	DRL-02	G-00	NFAT-00	SAS-00

/010W

-----136C92 052304Z /21

O 051824Z DEC 02  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC IMMEDIATE 8843  
INFO AMEMBASSY BOGOTA  
AMEMBASSY LA PAZ  
AMEMBASSY LIMA  
AMEMBASSY QUITO  
USCINCSO MIAMI FL  
NSC WASHDC  
DEPT TREAS WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 003884

NSC FOR LLORENS  
SOUTHCOM ALSO FOR POLAD  
TREASURY FOR OASIA AARON JONES

E.O. 12958: DECL: 11/14/2012  
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PAGE 02 CARACA 03884 01 OF 02 052304Z  
TAGS: ECON, EFIN, PGOV, VE  
SUBJECT: STRIKE WON'T INFLICT DECISIVE ECONOMIC DAMAGE ON  
GOV

REF: CARACAS 3314

CLASSIFIED BY: AMBASSADOR CHARLES S. SHAPIRO: REASON 1.5(B), (D).

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SUMMARY  
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1. (C) IN A DECEMBER 5 MEETING WITH ECONCOUNS, [REDACTED]

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ESTIMATED THAT AFTER

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[REDACTED] ONLY FOUR DAYS THE ONGOING GENERAL STRIKE HAS ALREADY COST 0.5 PERCENT OF GDP AND WILL CONTRIBUTE TO A DISMAL FOURTH QUARTER, WITH NEGATIVE 10 PERCENT GROWTH. AS IN APRIL, THE PETROLEUM INDUSTRY AND STATE OIL COMPANY PDVSA HAVE BECOME THE FOCAL POINTS IN THIS STRIKE. [REDACTED] SAID THAT EVEN IF PDVSA PRODUCTION WERE COMPLETELY INTERRUPTED, THE GOV WOULD NOT FACE REAL CASHFLOW PROBLEMS FOR 2 OR 3 MONTHS. END SUMMARY.

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THE ECONOMIC PINCH OF THE STRIKE  
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2. (C) [REDACTED] IDENTIFIED TWO TYPES OF ECONOMIC EFFECTS CAUSED BY THE STRIKE. FIRST, BUSINESS CLOSURES PREVENT TRANSACTIONS FROM TAKING PLACE. SECOND, A SIGNIFICANT NUMBER  
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B1

PAGE 03 CARACA 03884 01 OF 02 052304Z  
OF PEOPLE WILL NOT GENERATE INCOME DURING THE WORK STOPPAGE. IN THE FIRST CASE, A LARGE PERCENTAGE OF THE TRANSACTIONS ARE SIMPLY DELAYED AND EXECUTED AFTER THE STRIKE ENDS. THE LOSS OF INDIVIDUAL INCOME THOUGH WILL DIMINISH CONSUMPTION, WITH FAR-REACHING CONSEQUENCES. [REDACTED] ESTIMATED THAT THE FIRST FOUR DAYS OF THE ONGOING STRIKE HAVE ALREADY COST 0.5 PERCENT OF GDP, AND EACH DAY OF THE STRIKE COSTS THE GOV NEARLY 50 BILLION BOLIVARS IN INCOME. HE STATED THAT THIS NEGATIVE IMPACT WAS PARTICULARLY WORRISOME IN DECEMBER, A MONTH THAT TYPICALLY ENJOYS ROBUST ECONOMIC ACTIVITY. INSTEAD, CONSIDERING THE ECONOMIC RECESSION AND THE STRIKE, [REDACTED] PREDICTED A FOURTH QUARTER NEGATIVE GROWTH RATE OF 10 PERCENT OF GDP COMPARED TO THE FOURTH QUARTER OF 2001.

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AND IF THE OIL STOPS FLOWING?  
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3. (C) [REDACTED] SAID THAT INTERRUPTION OF OIL PRODUCTION AT THE STATE OIL COMPANY PDVSA WOULD NOT HAVE A PARTICULARLY SEVERE IMPACT ON THE GOV'S FINANCES. HE LIKENED A ONE-WEEK PARALIZATION OF PDVSA ACTIVITIES TO PRICE FLUCTUATIONS IN THE WORLD MARKET. THAT IS, SUCH A DISRUPTION WOULD BE NO MORE SIGNIFICANT THAN MARKET DISRUPTIONS THAT THE OIL INDUSTRY TYPICALLY EXPERIENCES. HE NOTED SEVERAL DIFFERENCES BETWEEN THE CURRENT SITUATION AND THE APRIL STRIKE. MOST IMPORTANTLY, THE PRICE OF OIL HAS BEEN CONSIDERABLY HIGHER IN RECENT MONTHS (REACHING USD 25/BARREL), SO INCOME FROM CURRENT TRANSACTIONS -- WHICH THE GOV WOULD CONTINUE TO RECEIVE FOR SEVERAL WEEKS -- WILL BE GREATER. ALSO, THE

B1

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EXCHANGE RATE IS MUCH HIGHER THAN IN APRIL, SO HARD CURRENCY  
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PAGE 04 CARACA 03884 01 OF 02 052304Z  
OIL REVENUES TRANSLATE INTO EVEN MORE BOLIVAR-DENOMINATED  
INCOME. THE DEVALUATION OF THE BOLIVAR HAS ALSO HELPED  
POSITION PDVSA TO WEATHER A POSSIBLE DISRUPTION OF OIL  
PRODUCTION, PROVIDING THE COMPANY SIGNIFICANT CASH RESERVES  
WITH WHICH IT WOULD BE ABLE TO MEET ITS OBLIGATIONS TO THE  
GOV, ACCORDING TO RODRIGUEZ. NO REAL FINANCIAL PROBLEMS  
WOULD DEVELOP FOR AT LEAST 2 -- POSSIBLY 3 -- MONTHS, HE SAID.

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SHORT-TERM FINANCIAL SOLUTIONS  
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4. (C) [ ] TICKED OFF A LONG LIST OF WEAPONS AT THE  
GOV'S DISPOSAL TO COMBAT SHORT-TERM FINANCIAL PROBLEMS SHOULD  
THEY ARISE: RECENT CHANGES IN THE CENTRAL BANK LAW (REFTEL)  
GIVE THE GOV ACCESS TO CURRENCY EXCHANGE PROFITS GENERATED BY  
THE CENTRAL BANK; PDVSA'S CASH RESERVES RESULTING FROM THE  
FAVORABLE EXCHANGE RATE WILL ALLOW IT TO PROVIDE DIVIDENDS TO  
THE GOVERNMENT FOR SOME TIME; THE GOV COULD CHOOSE TO SPUR  
THE DEVALUATION OF THE BOLIVAR TO FURTHER INCREASE THE FIRST  
TWO SOURCES OF REVENUE; AND, THE OVERALL LACK OF RESISTANCE  
TO THE GOV'S PRACTICE OF MEETING ITS CONTRACTUAL OBLIGATIONS  
WITH BONDS INSTEAD OF CASH -- SOMETHING THAT [ ]  
MARVELED AT -- SUGGESTS THAT THE GOV COULD CONTINUE TO RELY  
ON THAT STRATEGY FOR SOME TIME IF CASH BECAME SCARCE. "FROM

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PAGE 01 CARACA 03884 02 OF 02 051922Z  
ACTION WHA-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
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-----1350E9 051922Z /38

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AN ECONOMIC PERSPECTIVE," [REDACTED] CONCLUDED, "THE  
GOVERNMENT CAN DEFINITELY OUTLAST THE OPPOSITION."

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COMMENT  
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